

January 16, 1997

TO: J. S. Farmer
FROM: G. C. Pennell
RE: Forsyth Tobacco Products Optimization

The one thing we can always count on with Forsyth Tobacco is that there are continuous strategic and tactical issues to deal with due to the evolving/changing dynamics in the marketplace. The only unknown is anticipating what those significant issues will be. We have had numerous conversations relative to some of those key issues and the overall role/expectations of Forsyth moving forward. Bare with me while I "ramble on" a little regarding Forsyth relative to current perspectives, moving forward and specific next steps.

A. Current Perspective

RJR

There's good news and some remaining opportunities from an RJR perspective:

Good News

- ☐ We continue to validate that RJR is better off (volume/profit) with both an RJR Private Label and strong merchandising presence.
- ☐ Profit per thousand is at record highs.
- ☐ We are outperforming "Industry Private Label" as a category.
- ☐ The "bundling approach" is a sound concept in most situations.
- ☐ We have managed to minimize the dollars going to the street and have utilized "Forsyth resources" to further support RJR Full Price and provide leverage on DORAL.
- ☐ We have managed to keep most (if not all) of the PL partners we want and have secured the majority of those we would strategically like to have.
- ☐ We have developed strategies/tactics to limit additional SKU's.

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A. Current Perspective (continued)Opportunities:

- ☐ Volume/share continues to decline (that would be okay if we were not counting on it and/or picking it up on other RJR brands).
- ☐ DORAL remains underdeveloped overall in RJR PL accounts.
- ☐ We are putting more dollars on the street than we would like.
- ☐ While bundling works, it is not fully being leveraged as a strategy/RJR point-of-difference.

is there something else we need to do for brand in RJR PL. acc'ts.

RJR PL Partner's Perspective

- ☐ They are extremely frustrated for several reasons:
 - Volume/profit is down
 - The "old formula" for success is no longer working
 - They are not seeing the level of "success" with our Full Price brands they would like (despite putting Forsyth funds against growing RJR Full Price)
- ☐ Their solution is to get more money to then lower the price (not a good idea for any of us).
- ☐ They do not fully understand what is different and why relative to the performance of their PL's.

B. Moving Forward

Ideally we could move to having less reliance on a need for Forsyth Products. The reality is that it remains a vital part of our portfolio and will continue to do so until our Full Price brands are stronger and bigger factors in the marketplace. While that remains our vision and we must continue to develop Forsyth's role/strategies and tactics for when that day comes; we must also look to better optimize our current situation.

In my mind, to better optimize our current strategy, progress must be made in the following areas:

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B. Moving Forward (continued)

1. Continued Improvement/progress on the "opportunities" listed above (DORAL underdevelopment, bundling leverage, minimize retail dead nets, etc.).
2. Proactively dealing with and managing PL Partners frustrations/expectations on Private Label. We must help them understand how (and why) the role of Private Label's has changed over time and what the model of success will be moving forward. Attached is a "quick attempt" to articulate and demonstrate this point.

C. Next Steps

We are effectively moving forward with most (if not all) of these "opportunities" on an individual basis. What we must now do, and quickly, is to put together a cohesive action plan that deals with these opportunities as a whole versus individual or separate pieces.

While others should and will be involved in this process (JVM, AVP's, BKS, RSK, etc.), we must lead the effort and drive the process. Accordingly, Karen has scheduled a meeting on Thursday, January 23rd for you and I to discuss this area, carve out a process, and agree to specific next steps.

In my opinion, we do not have a problem to fix on Forsyth. What we do have is a need/opportunity to better optimize our current situation both strategically and tactically. We all know the importance of delivering in 1997 against extremely "stretch" goals/objectives. Forsyth, just like every other initiative/department at RJR must be doing everything it can to optimize its contribution/results.

I look forward to us discussing this further.

Sincerely,


G. C. Pennell

GCP/kw

Attachment

cc: O. Sorensen
J. V. Maguire

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